PENSION REFORM COMMITTEE
MEETING OF
April 20, 2004
4:00 PM – 6:00 PM Meeting

401 B Street
Conference Room, 4th Floor

MINUTES

THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE SCHEDULED FOR EVERY TUESDAY AT 4:00 PM AT 401 B STREET, 4TH FLOOR

THE OPINIONS AND VIEWS OF THE COMMITTEE OR ITS MEMBERS, AND PRESENTATIONS MADE AND DOCUMENTS PROVIDED TO THE COMMITTEE OR ITS MEMBERS, MAY CONTAIN PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD-LOOKING STATEMENTS, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT. ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MSRB OR THE NRMSIRs ARE AUTHORIZED BYTHE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.

Item 1: Call to Order

Item 2: Roll Call

Members Present	Members Absent	Staff Present
April Boling	Tim Considine	Patricia Frazier
Robert Butterfield	Richard Vortmann	Chris Morris
Stanley Elmore		Larry Grissom, SDCERS Staff
Judith Italiano		Paul Barnett, SDCERS Staff
William Sheffler		Pam Holmberg
Steve Austin		
Kathleen Walsh-Rotto		

Item 3: Approval of Minutes

There was a motion for approval of the minutes for the April 13, 2004 Pension Reform Committee (Committee) meetings from Stan Elmore. The motion was seconded by Bill Sheffler and passed unanimously.

Item 5: CalPERS

This action item was for consideration if the Committee believed it was prudent to move to the CalPERS system for new employees. After discussion Judie Italiano made a motion that the

Committee not consider the option as viable for the City of San Diego. The motion was seconded by Stan Elmore and passed unanimously.

Item 4: Actuarial Study

Mr. Roeder distributed a letter answering the question of the cost of the benefit increases related to Manager's Proposal 1, Manager's Proposal 2 and the non-contingent Corbett settlement as of June 30, 2003. His figures showed the cumulative value of the benefits increases, including the time value of money, to be $467.3 million. Mr. Roeder also distributed a letter clarifying the correspondence of April 9 regarding market values that were the starting point of the calculations of the interim valuation. Mr. Roeder hopes to have the majority of the questions from the Committee completed by next week's meeting with the balance completed by the May 11 meeting. The Committee also expanded the scope of Mr. Roeder's work to include; a) a valuation of retiree health insurance; b) a quantification of the components that comprise the increase in the unfunded actuarial liability of $1.157 billion since 1996; and c) to include Corbett and 13th check in the UAAL.

Item 6: City Council Presentation

Ms. Boling reported that her April 19, 2004 presentation to City Council was well received. She felt the Council understood the recommendation and the reasons behind it.

Item 7: Discussion on Final Report

The Committee discussed the framework for their final report to Council. A draft outline for the report was constructed and discussed. Please see the attached draft outline. The Committee will review the draft and discuss it further at the next meeting. The items in the outline do not reflect a position taken by the Committee; they reflect points which the Committee will vote on individually at a future meeting.

Item 8 Discussion on Upcoming Presentations Related to the Retirement System Overview and Meeting Schedule

There was no discussion.

Item 9: Assignment Matrix

Mr. Grissom distributed information on the history of the SDCERS investment performance as requested by Mr. Considine.

Item 10: Discussion Related to Previously Docketed Items

There was no discussion.

Item 11: New Business

There was no discussion.

Item 12: Comments by Committee Chairperson

There were no comments.

Item 13: Comments by Committee Members

There were no comments.

Item 14: Non-Agenda Public Comment

There were no comments.

Item 15: Adjournment

The meeting was adjourned at 6:05.

The next meeting will be on Tuesday, April 27, 2004 at 4:00 PM at the same location.

DRAFT OUTLINE
FINAL REPORT TO COUNCIL

INTRODUCTION

A. How we got here
1. Roeder report
2. 1996 start date
3. Order of magnitude
    a. Stock market
    b. Benefit enhancements
    c. Under funding

B. Where we are
1. April's presentation (4/19/04 to City Council)

RESOLUTIONS

I. Addressing the deficit
1. The Measurement
    a. Pick a date
        - report date – mid-late May 2004
          *Market value as of February 2004 (2/29/04 data as reviewed internally by Management)
    b. Value of contingent benefits and inclusions

2. Options

    a. POBs
    b. Hope (Market)
    c. Contributions from the City
    d. Real Estate Assets
    e. Decreasing number of participants
    f. Changing the assumptions
    g. Early retirement

II. Plan design
1. Changes to benefits for new hires
    a. High one year salary changed to high three year or five year.
    b. Changing to defined benefit plan
    c. Elimination of DROP
    d. Changes of the percentage per year, i.e. 2.5% to 2.0%
    e. Changes to retirement age – up by one year
    f. COLA decrease
2. Changes to Structure
    a. Separating from Pension Fund-Retiree Health Care.

III. Funding policy
IV. Governance
V. OPEBs
VI. Improved disclosure/communication
VII. Transition summary

April 9, 2004 (updated April 5 version)

Members of the Pension Reform Commission
c/o SDCERS
401 B Street, Fourth Floor
San Diego, CA 92101

RE: Completion of Item #13 from March 10, 2004 Proposal Letter

Dear Members of the Commission,

You initially asked what the impact would be of completing an interim actuarial valuation as of February 29, 2004. When it became apparent this information would not be supplied to us on a timely basis for the requested rapid turnaround, we were asked to supply this information on the last available date – in this case January 31, 2004.

The book value of reserves as of January 31, 2004 indicates that 94.53% of System assets are attributable to the City. We have estimated City accrued liabilities based on trends from changes in annual accrued liabilities from year-to-year. This analysis uses the same demographics as in the June 30, 2003 valuation.

The completion of our analysis is summarized as follows. All numbers are City-specific.

	June 30, 2003	January 31, 2004
	(Numbers in billions)	
Market value of assets (gross)	2.998[1]	3.256
Valuation assets (net)	2.375	2.561
Valuation liabilities	3.533	3.728 (est.)
Unfunded accrued liability(UAL)	1.157	1.167 (est.)
Funded Ratio	67.2%	68.7%

Normal Cost (BOY)	11.95%	11.95%
Amortization (UAL)	15.99%	16.12%
Actuarially Computed Rate (BOY)	27.94%	28.07%
Deferred Investment Losses	.044	(.226)
Remaining Amortization Period	18 years	17.42 years

1 This figure includes $217.5 million in a "wash" item, Securities Lending Collateral, which is not reflected in interim financial statements. On an apples-to-apples basis, the market value increased by $475 million

As we earlier indicated to the Board, most of the positive investment news will not translate into reduced rates or increased funded ratios until the 2005 year. This is because the year in the process of "rolling off" in the actuarial smoothing process, 1999, is the one with the highest ratio of market to book, 117.58%.

This is borne out by the marked change in the deferred investment loss figures. Deferred losses are the excess of net market value over actuarial value. The City now has $226 million of deferred gains as of January 31, 2004 compared to $44 million of deferred losses as of June 30, 2003 – an overall increment in a positive direction of $270 million. In other words, the funded ratio is in excess of 68.7% based on market value – almost 75%. The unfunded liability, using net market value, is roughly $941 million.

It is possible that our liability estimate will be slightly low due to the many applications for the subsidized rates for permissive service purchase. There was a deluge of applications once the Retirement Board decided to substantially increase service purchase rates for post-November 2003 purchase applications.

Sincerely,

Rick Roeder, EA, FSA, MAAA

CC: Larry Grissom
Paul Barnett
Lamont Ewell

GRS

GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

April 20, 2004

Members of the Pension Reform Commission
c/o SDCERS
401 B Street, Fourth Floor
San Diego, CA 92101

RE: Completion of Item #1

Dear Members of the Commission,

We have established the cumulative financial impact of the three benefit increases relating to Manager's Proposal 1 (MP 1), Manager's Proposal 2 (MP 2) and the "Corbett" settlement as of June 30, 2003. This does not incorporate the impact of other contingent benefits (Item #10 of your RFP request).

The cumulative value of the benefit increases, including considering the time value of money, for MP1, MP2 and the **non**-contingent Corbett benefit increases as of June 30, 2003 is $467.3 million

The contingent portion of the Corbett retiree increases was not paid out as of June 30, 2003. We calculated an estimated value of $75.5 million as of the June 30, 2000 valuation date. The affected retirees are a closed group. It is still not entirely clear to us how benefits, if any are applicable, would apply to the estates of retirees who have died in the intervening time, once the conditions for payment have been triggered.

Sincerely,

Rick Roeder

Rick Roeder, EA, FSA, MAAA

CC: Larry Grissom
Paul Barnett
Lamont Ewell

GABRIEL, ROEDER, SMITH & COMPANY
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9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

April 15, 2004 (update of April 9 version)

Members of the Pension Reform Commission
c/o SDCERS
401 B Street, Fourth Floor
San Diego, CA 92101

RE: Completion of Interim Valuation (Item #13) as specified in March 10, 2004 Proposal Letter

Dear Members of the Commission,

At the request of retirement staff, we are clarifying our correspondence of April 9 in one regarding market values that were the starting point in the calculations. In this correspondence, the list of numbers will show market value, attributable to the City only, instead of for the System as an entity.

You initially asked what the impact would be of completing an interim actuarial valuation as of February 29, 2004. When it became apparent this information would not be supplied to us on a timely basis for the requested rapid turnaround, we were asked to supply this information on the last available date – in this case January 31, 2004.

The book value of reserves as of January 31, 2004 indicates that 94.53% of System assets are attributable to the City. We have estimated City accrued liabilities based on trends from changes in annual accrued liabilities from year-to-year. This analysis uses the same demographics as in the June 30, 2003 valuation.

The completion of our analysis is summarized as follows. All numbers are City-specific.

	June 30, 2003	January 31, 2004
	(Numbers in billions)	
Market value of assets (gross)	2.631[1]	3.078[2]
Valuation assets (net)	2.375	2.561

R

	June 30, 2003	January 31, 2004
Valuation liabilities	3.533	3.728 (est.)
Unfunded accrued liability(UAL)	1.157	1.167 (est.)
Funded Ratio	67.2%	68.7%
Normal Cost (BOY)	11.95%	11.95%
Amortization (UAL)	15.99%	16.12%
Actuarially Computed Rate (BOY)	27.94%	28.07%
Deferred Investment Losses	.044	(.226)
Remaining Amortization Period	18 years	17.42 years

1 Derived by reducing the $2.998 billion System number by $217.5 million for a "wash" item, Securities Lending Collateral, which is not reflected in interim financial statements. Then, this net number of $2.781 billion is multiplied by the City's allocation ratio of 94.62% based on June 30, 2003 book value of reserves. Gross numbers do not reflect payables or excludables.

2 Derived by the product of System gross assets of $3.256 billion by the City's allocation ratio of 94.53%

As we earlier indicated to the Board, most of the positive investment news will not translate into reduced rates or increased funded ratios until the 2005 year. This is because the year in the process of "rolling off" in the actuarial smoothing process, 1999, is the one with the highest ratio of market to book, 117.58%.

This is borne out by the marked change in the deferred investment loss figures. Deferred losses are the excess of net market value over actuarial value. The City now has $226 million of deferred gains as of January 31, 2004 compared to $44 million of deferred losses as of June 30, 2003 – an overall increment in a positive direction of $270 million. In other words, the funded ratio is in excess of 68.7% based on market value – almost 75%. The unfunded liability, using net market value, is roughly $941 million. R

It is possible that our liability estimate will be slightly low due to the many applications for the subsidized rates for permissive service purchase. There was a deluge of applications once the Retirement Board decided to substantially increase service purchase rates for post-November 2003 purchase applications.

Sincerely,

Rick Roeder, EA, FSA, MAAA

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